PRESS RELEASE
January 3, 2020

As the subsidy budget gets exhausted for the fertiliser industry, working capital borrowings to rise: ICRA

- ***Additional budgetary allocation from GoI not expected as fiscal deficit slippage fears loom large in the current fiscal; Special Banking Arrangement expected to be sanctioned in Q4 FY2020***

The GoI had allocated Rs. 800 billion in the Union Budget for FY2019-20 for payment of the fertiliser subsidy. While the budgetary sanction increased from the budgetary allocation of Rs. 700 billion in the recent years, it remains inadequate to meet the total requirement of the fertiliser subsduy which stands at around ~Rs. 1250 billion. The subsidy requirement of Rs. 1250 billion includes a subsidy backlog which is expected to increase to Rs. 450 billion by the end of FY2020. Of the total budgetary allocation, GoI had released nearly 84% by the end of October 2019. With the subsidy budget expected to be over by the end of December 2019, the subsidy receivables will rise till the end of FY2020 end. As a result, the working capital borrowings of the industry will rise leading to moderation in the credit metrics, as per an ICRA note.

Throwing more insights Mr. K. Ravichandran, Senior Vice-President & Group Head, Corporate Ratings, ICRA, says , *"We do not expect any additional budgetary allocation for the fertiliser industry in the current fiscal from the GoI as the possibility of GoI missing its fiscal deficit target looms large. However, the GoI is expected to sanction a Special banking Arrangement (SBA) in Q4 FY2020, which will help in reducing interest outgo to a small extent. Overall, GoI needs to increase the budgetary allocation in the upcoming Union Budget for FY2020-21 to around Rs. 100 billion in order to reduce the subsidy backlog. The increased budgetary allocation if continued for a couple of years will wipe out the subsidy backlog and pave the way for implementation of the true form of Direct Benefit Transfer (DBT) in the fertiliser sector."*

With a late surge in the monsoon, the soil moisture and healthy reservoir levels, the sowing levels in the rabi season have witnessed healthy growth. The outlook for fertiliser sales in the current rabi season remains healthy with DAP/NPK offtake expected to grow at a robust pace as there has been significant moderation in the retail prices Y-o-Y driven by a fall in the raw material prices. Urea demand is expected to remain stable as the offtake by farmers remain more or less uniform , given fixed and low retail price.

Adds Mr. Varun Gogia, Senior Analyst, Corporate Ratings, ICRA, *" The overall fertiliser offtake is expected to be healthy in the current rabi season. The profitability of the urea players is expected to be stable given the stable pooled gas prices over the past 12-14 months and steady volume offtake. Profitability of the P&K players is expected to improve in H2 FY2020 as key raw material prices i.e. phosphoric acid and ammonia prices have softened . While retail price of P&K players has been reduced, ICRA expects slight expansion in the contribution margin for DAP/NPK players which should support profitability. Nonetheless, the credit metrics of the industry are expected to remain subdued given the continued delay in the subsidy disbursement by the GoI. "*

For further information, please contact:

Media Contacts:	
Naznin Prodhani Head Media & Communications ICRA Ltd	Poornima Tyagi Deputy Manager- Media & Communications ICRA Ltd

Tel: + (91 124) 4545300, Dir - 4545860
Email: naznin.prodhani@icraindia.com

Tel: +(91-124)4545300, Ext: 840
Email: poornima.tyagi@icraindia.com

Girish Dikey/ Khushal Devera
Ketchum Sampark
Mob: 7738020260/ 9819666376
Email:girish.dikey@ketchumsampark.com/
khushal.devera@ketchumsampark.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

Follow us on Twitter @ICRALimited and ICRA LinkedIn